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C O N F I D E N T I A L SEOUL 002270

SIPDIS

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SUBJECT: ROKG REACTION TO DPRK'S RATCHETING UP PRESSURE ON
KAESONG

REF: SEOUL 002206

Classified By: POL M/C Joseph Y. Yun. Reasons 1.4(b/d)

11. (C) SUMMARY:

-- On November 24, the DPRK announced that it would further restrict South-North economic cooperation as of December 1 by stopping Kaesong City tours and reducing ROK managers entering the Kaesong Industrial Complex (KIC) by half.

-- A Foreign Ministry official said the ROKG, not wanting to be governed "by the DPRK's timetable," would stop tours to Kaesong City and train service as of November 28.

-- Senior ROKG contacts indicate that the ROKG position -- offering to hold dialogue with the DPRK as well as to provide communications equipment -- has not changed.

-- Internally, however, both ROKG and Hyundai Asan appear to be taking the threats very seriously and planning for the possibility of greatly restricted border passage.

-- ROKG Officials and National Assembly members are wary of the DPRK driving a wedge between the U.S. and the ROK.

-- November 25 press reports indicated that an NGO, likely prompted by ROKG pressure, had announced the suspension of its leaflet activities only to announce their continuation shortly afterward. END SUMMARY.

DPRK Restrictions

12. (C) Following up on its November 12 announcement that "rigid limits and blockages" would be placed on border crossings beginning December 1, the DPRK informed Seoul on November 24 that as of December 1, it would suspend cross-border rail services and tours to Kaesong City and reduce South Korean management staff at Kaesong Industrial Complex (KIC) by half. ROKG officials, who had downplayed the significance of the earlier threat (reftel), saw the November 24 announcement as much more serious. The North Korean notification was delivered through seven discrete channels and also included plans to place "strict limits" on passage through the South-North corridor, reduce Hyundai Asan staff maintaining Mt. Kumgang resort by 70 percent, block ROK civic groups and entrepreneurs from crossing the border, and formally close the inter-Korean economic cooperation office in Kaesong.

13. (C) ROKG officials were taking the possibility of the DPRK following through on its threats much more seriously than before. Ministry of Foreign Affairs and Trade (MOFAT) Director of the Inter-Korean Division Chin Ki-hoon said that the Ministry of Unification (MOU) led an emergency meeting on the evening of November 24 during which officials decided that, to keep from being governed "by the DPRK's timetable," the ROKG would quietly halt daily tours to Kaesong City and the virtually empty daily train services on November 28. Furthermore, individual companies at KIC are being asked to clarify with DPRK authorities what restrictions they would face after December 1. Chin said he believed that KIC would continue to operate after December 1, but that the DPRK was calculating that ROK companies would put up stiff protests and foster demonstrations against the ROKG; this was complete miscalculation, Chin assessed.

14. (C) MOU's KIC Development Planning Team Director Kim Ki-woong told us November 25 that his office was planning for the possible withdrawal of all ROK companies from KIC, just in case. As for the overall ROKG approach to the DPRK's statements, Kim echoed MOFAT's Chin and Blue House contacts in saying that the Cabinet would likely meet as soon as President Lee Myung-bak returns from abroad, on the evening of November 25.

15. (C) National Security Assistant Secretary to the President for Unification Yu Joon-ha -- who told us after the DPRK's November 12 announcement that the ROKG was prepared to call Pyongyang's bluff if KIC were to be shut down -- confirmed on November 25 that the government's stance had not changed. He said the Lee Administration was maintaining the same position expressed to the DPRK by telefax through Panmunjom on November 13: that it was ready to offer communications equipment to be used in border areas and that it was prepared to hold dialogue with the North. The DPRK had not yet responded to that message, MOFAT's Chin told us. Whether to send another message would be up to President Lee.

Hyundai Asan Worried about Joint Project Prospects

16. (C) MOU Inter-Korean Exchange and Cooperations Bureau Deputy Director Kim Seong-Hyoun confirmed that once-optimistic Hyundai Asan was more worried than ever about the new developments. Instead of wondering when tours to Mt. Kumgang would restart, company officials had confided to MOU during a November 25 meeting that they had assessed what the company could "salvage and retrieve" from the resort. According to Kim, Hyundai Asan had about USD 50,000 stored at Mt. Kumgang for "emergencies" and was now wondering how best to "bring back the cash" to South Korea should there be a border closure. The carefully cultivated personal lines of communication between the company and North Korean counterparts no longer existed, Hyundai Asan had told MOU.

17. (C) As for Kaesong tours, Kim said that Hyundai Asan was in the process of providing refunds to more than 4,000 South Koreans with December reservations. Even as recently as last week, both Hyundai Asan and MOU were confident that the Kaesong City tour would be the last program that the DPRK would stop since it brought in cash (as much as USD 600 to 900 thousand to DPRK coffers per month) for essentially no effort. Kim believed that the announced plans to discontinue the city tours alone thus indicated the seriousness of the North's threatened border closures now went "far beyond the leaflet issue." MOFAT's Chin echoed this comment, saying that the DPRK's list of dissatisfactions was growing.

Wherefore KIC Companies?

18. (C) Turning to KIC, Kim said that approximately 60 of the

83 companies currently operating at the complex are insured by the ROKG against involuntary evacuation. However, MOU did not expect that all 60 companies would file an insurance claim after December 1 because companies with sizable North Korean work forces would suffer less. (To claim such insurance, MOFAT's Chin told us separately, the withdrawal would have to be forced by the DPRK, not voluntary.) According to Kim, all companies operating in KIC recently received a letter of notification instructing them to evacuate a percentage of their personnel. Although these notifications were similar in format and content, the number of evacuees varied, apparently in accordance with the size of each company's North Korean work force. Kim's analysis was that construction and management companies with mostly South Korean workers would be hit the hardest as most of their employees would be unlikely to be able to return to KIC should the reduction in personnel come to pass. Factories with hundreds of North Korean workers, on the other hand, would be able to operate almost "as usual." Restaurants and other facility maintenance crew were nevertheless making plans to cease operations as of December 1.

¶9. (C) Senior Manager Yim Hwang-yong of S. J. Tech Co., a KIC firm producing hydraulic pump parts and plastic balls, confirmed that his company's main production factories at KIC would continue to operate: "South Korean buyers and North Korean workers" would not be affected by the North tightening its borders. Drawing from a November 24 notice sent by the DPRK Central Special Direct General Bureau to "specially guarantee company activities," Yim shared that the DPRK did not want South Korean companies to be sacrificed as a result of the confrontational policies between the North and South, hoping rather that companies continue to concentrate on business activities. In an apparent contradiction of announced plans to reduce KIC personnel, the notice also stated that South Korean company personnel would "be excluded from the measure to limit cross-border passage by South Koreans" and that management personnel would be allowed to reside at the KIC.

National Assembly Concerns

¶10. (C) Over a breakfast meeting with the Ambassador November 25, several opposition Democratic Party (DP) lawmakers expressed worry that President Lee was negating all the gains of the previous administration's engagement policy by refusing to accommodate Pyongyang's concerns. DP legislators were equally concerned by the developments in Pyongyang, seeing them as evidence of a Kim Jong-il ploy to drive a wedge between Seoul and Washington. Rep. Song Young-gil, an ambitious third-term lawmaker from Incheon who chaired the breakfast meeting, said that North Korea believed that it could ignore Seoul if it was confident of its relationship with Washington. Another DP lawmaker, Park Sun-suk, assessed that Pyongyang believed that the new U.S. Administration could offer a generous breakthrough deal which, again, would negate any need for the North to seek help from the South. The Ambassador assured the DP legislators she saw no possibility that Washington could ignore ROK interests in dealing with North Korea, emphasizing that South Korea had a strong and dependable alliance partner in the United States. There would be no change from continuation of the closest possible consultations and policy coordination between Seoul and Washington, she said.

¶11. (C) Similarly, former Foreign Minister Han Sung-joo told the Ambassador on the margins of a November 24 social event that he saw the DPRK's latest threats as aimed at either trying to send a message to the incoming U.S. administration that the DPRK wanted to deal with the U.S. and not the ROK, or as an effort to deflect attention from Kim Jong-il's state of health, or a mixture of both. We would note that these views are widely shared in Korea, among liberals and conservatives alike.

¶12. (C) Meanwhile, developments on the leaflets front remained somewhat confused. Under some pressure from the ROKG, to say nothing of the vitriolic rhetoric from Pyongyang, one of three NGOs dropping leaflets, Fighters for Free North Korea, announced on November 25 a suspension of leaflet activities "for the time being." However, after consulting with the other two NGO partners, the three made a new announcement that they would not cease, but continue their activities, because to stop now would mean yielding to North Korean threats.

¶13. (SBU) Web-based public reaction to the DPRK's latest move included suggestions to drop more leaflets into North Korea, or to beat Pyongyang to the punch by cutting off all ties with North Korea before December 1, and refuse North Korean vessels passage through the Jeju Strait as is currently permitted.

¶14. (SBU) ROK media accorded front-page, top-story treatment to the DPRK's announcement. Evening news programs all devoted about one-third of their November 24 broadcasts to the threatened closures. Most newspaper reporting was factual and pointed out the negative impact border-crossing restrictions would have on Hyundai Asan, KIC companies, and humanitarian assistance from South Korean NGOs. Left-leaning Hankyoreh said the present state of affairs heralded the collapse of the "engagement tower built over 10 years." On its editorial pages, the conservative Chosun Ilbo commented that Pyongyang was "shooting itself in the foot" and was "seriously mistaken" if it thought the new U.S. administration would serve as an "economic savior" to the DPRK regime. Center-right Joongang Ilbo similarly assessed the DPRK to be attempting to profit by raising tensions.

Comment

¶15. (C) The ratcheting up of rhetoric and threats from Pyongyang are being received with surprising calm by South Korean officials. Most of our ROKG interlocutors readily admit that they really don't know the underlying cause of the current unhappiness of the North Korean leadership.

Leaflets? Summit declarations? KJI's health? Good harvest this year? Taking advantage of the transition in Washington?

What is clear is that they do not feel any imminent danger, unlike during many previous North-South breakdowns, but just frustration. The Lee Administration, therefore, appears to have no choice but to continue what it has been doing -- holding firm on its offer of general dialogue, but making no premature concessions. This is a stand-off that appears could result in the shut-down of KIC, the proudest achievement of ten years of sunshine policy.

STEPHENS